REPORT ON EXAMINATION

OF THE

STARNET INSURANCE COMPANY

AS OF

DECEMBER 31, 2006

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2006 of the

STARNET INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

ATTEST BY: Antoinette Handy

DATE: 27 JUNE 2008

In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 27TH DAY OF JUNE 2008.

Insurance Commissioner

REPORT ON EXAMINATION

OF THE

STARNET INSURANCE COMPANY

AS OF

December 31, 2006

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 27TH Day of JUNE 2008.

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SALUTATION

June 27, 2008

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Chairman, Financial Condition (E)
Committee, NAIC
State Corporation Commission
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Richmond, VA 23218

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Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 06-004A, dated January 26, 2006, an examination has been made of the affairs, financial condition and management of the

STARNET INSURANCE COMPANY

hereinafter referred to as "Company" or "StarNet" and incorporated under the laws of the State of Delaware as a stock company with its home office located at 1209 Orange Street, Wilmington, Delaware, 19801. The examination was conducted at the main administrative office of the Company, located at 475 Steamboat Road, Greenwich, CT 06830.

The report of such examination is submitted herewith.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 2003. This examination covers the period since that date through December 31, 2006, and consisted of a general review of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

The format of this report is designed to explain the procedures employed on examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible officials during the course of the examination.

The general procedures of the examination followed the rules established by the Committee on Financial Condition Examiners Handbook of the National Association of Insurance Commissioners ("NAIC") and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. In accordance with the aforementioned Handbook, the consulting firm of INS Services, Inc. performed an information systems review.

In addition to items hereinafter incorporated as a part of the written report, the following areas were reviewed and are included in the files of this examination:

Corporate Records
Fidelity Bonds and Other Insurance
Statutory Deposits
Employees' Welfare
All Asset and Liability Items not Mentioned
Subsequent Events

In addition to this examination of the Company, concurrent examinations were performed on the Company's parent and the following affiliates, all Delaware domestic companies:

Berkley Insurance Company (parent)
Gemini Insurance Company
Midwest Employers Casualty Company

Examination reports for the abovementioned companies were filed separately.

HISTORY

The Company was incorporated in Delaware on June 11, 1998 as StarNet Casualty Company, a wholly owned subsidiary of Signet Star Reinsurance Company (Signet Star, now Berkley Insurance Company) and commenced business on September 8, 1998.

The Company was formed as a shell company in order to facilitate a re-domestication by merger as the Company was to be merged with StarNet Insurance Company, a New York domiciled company and a wholly owned subsidiary of Signet Star, allowing the surviving company to be a Delaware corporation.

On June 30, 1998, Signet Star acquired 100% of the outstanding common stock of Resolute Reinsurance Company (Resolute Re), a property and casualty insurer incorporated in New York on February 27, 1981, from National Indemnity Insurance Company through a Stock Purchase Agreement. Contemporaneous with the sale of Resolute Re to Signet Star, National Indemnity Insurance Company assumed 100% of Resolute Re's gross liabilities and obligations under all policies of insurance and contracts of reinsurance written or reinsured by Resolute Re on or prior to the date of Resolute Re's sale. On July 9, 1998, Resolute Re's name was changed to StarNet Insurance Company.

Effective February 28, 1999, the re-domestication by merger of StarNet Insurance Company and StarNet Casualty Company was approved by the New York and Delaware Insurance Departments. Concurrent with the merger, StarNet Casualty Company, the surviving corporation, changed its name to StarNet Insurance Company.

CAPITALIZATION

Capital Stock

The Certificate of Incorporation provides that the Company is authorized to issue 835,771 shares of common capital stock having a par value of $10 per share, of which 600,000 shares are issued and outstanding, and 100,000 shares of preferred stock having a par value of $10 per share of which no shares are issued and outstanding. All shares of stock are owned by Berkley Insurance Company.

Gross Paid In and Contributed Surplus

The Company received a capital contribution from its immediate parent company, Berkley Insurance Company, on February 21, 2006, in the amount of $77,000,000, that increased its gross paid in and contributed surplus from $11,849,611 to $88,849,611.

Dividends to Stockholder

There were no stockholder dividends paid during the period of January 1, 2004 to December 31, 2006.

The following is a reconciliation of capital and surplus for the period under examination:

	2004	2005	2006
Surplus as regards policyholders, December 31, prior year	$21,450,920	$22,796,406	$23,840,570
Net Income	1,296,325	1,493,851	4,623,802
Change in net unrealized capital gains (losses)			(2,335,271)
Change in net deferred income tax	101,648	479,611	602,385
Change in non-admitted assets	(52,487)	(929,298)	(1,115,966)
Surplus adjustments: Paid in	0	0	77,000,000
Change in surplus as regards policyholders, current year	$1,345,486	$1,044,164	$78,774,950
Surplus as regards policyholders, current year	$22,796,406	$23,840,570	$102,615,520

MANAGEMENT AND CONTROL

Board of Directors

The bylaws state that the Board of Directors consisting of not less than six and not more than fifteen directors shall manage the affairs of the Company. Directors are elected at the annual meeting of the stockholders and each director serves for the term of one year until the next annual election and until their successors are elected and qualified. Interim vacancies may be filled by a majority of the remaining directors though less than a quorum provided; however, that the stockholders removing any director may at the same meeting fill the vacancy caused by such removal, and provided further, that if the directors fail to fill any such vacancy, the stockholders may at any special meeting fill such vacancy. A majority of the Board of Directors at any time in office shall constitute a quorum.

The Board of Directors shall hold at least four regular meetings per year and other meetings may be held at such times as may be determined from time to time by the Board of Directors. Special meetings of the Board of Directors may be called by the Chairman of the Board or by the President.

Members of the Board of Directors, duly elected in accordance with the Company's bylaws and serving as of December 31, 2006 were as follows:

Director	**Primary Business Affiliation**
Eugene George Ballard	Chief Financial Officer and Treasurer W.R. Berkley Corporation
William Robert Berkley	Chairman and Chief Executive Officer W.R. Berkley Corporation
William Robert Berkley Jr.	Executive Vice President W.R. Berkley Corporation
Craig Nicholas Johnson	President and Chief Executive Officer Signet Star Re, LLC
Carol Josephine LaPunzina	General Counsel and Secretary Berkley Insurance Company
Ira Seth Lederman	General Counsel and Secretary W.R. Berkley Corporation
C. Fred Madsen	Senior Vice President W.R. Berkley Corporation

Committees of the Board of Directors

The following were members of the Business Ethics Committee that served as of December 31, 2006:

Name	**Title**
Larry Aaron Hansen	Chief Financial Officer
Carol Josephine LaPunzina	General Counsel and Secretary

Officers

The bylaws provide that the officers of the Company shall be a President, one or more Vice-Presidents, a Secretary, one or more Assistant Secretaries, a Treasurer, and one or more Assistant Treasurers, and such other officers as may be appointed by the Board of Directors.

The Company’s principal officers and their respective titles as of December 31, 2006 were as follows:

Name	**Title**
William Robert Berkley	President
Larry Aaron Hansen	Chief Financial Officer
Carol Josephine LaPunzina	Secretary
John Stanley Diem	Executive Vice President
Donato Gasparro	Executive Vice President
John Kevin Goldwater	Executive Vice President
Craig Nicholas Johnson	Executive Vice President
Joseph Lee Mathews	Senior Vice President
Jason Richard Niemala	Executive Vice President

Notification of Change of Officers

There were four changes, three appointments, and one resignation of officers that were not reported to the Delaware Insurance Commissioner during the period of January 1, 2004 to December 31, 2006. 18 Del.C. §4919, "Notice of change of directors or officers" states that "Every domestic stock or mutual insurer shall promptly notify the Commissioner in writing of any change of personnel among its directors or principal officers."

Therefore,

It is recommended that the Company comply with 18 Del.C. § 4919 and promptly notify the Commissioner in writing of any change of personnel among its directors or principal officers.

Conflict of Interest Policy

The ultimate parent company, W.R. Berkley Corporation, maintains a formal written Statement of Business Ethics for conflict of interest and business conduct procedures for its subsidiaries. The Statement requires its personnel to submit certificate of compliance forms on at least an annual basis.

The Company implemented its procedures for the year 2005; however, the execution of certificate of compliance forms was not completed by five of its directors or officers in 2006.

Therefore,

It is recommended that the Company comply with its Statement of Business Ethics procedures by verifying that its officers and or directors submit certificate of compliance or conflict of interest forms on at least an annual basis.

Timeliness and/or Lack of Board of Directors' Approvals of Transactions

During the period of January 1, 2004 to December 31, 2006, pertinent inter-company transactions and agreements were either not pre-approved, or not authorized in a timely manner, or were not approved at all by the Board of Directors in ten instances.

Therefore,

It is recommended that the Company's Board of Directors approve all inter-company agreements.

HOLDING COMPANY SYSTEM AND AFFILIATED TRANSACTIONS

The Company is a member of an insurance holding company system and is a wholly owned subsidiary of Berkley Insurance Company, a Delaware domiciled reinsurance company, that in turn is wholly owned by Signet Star Holdings, Inc., a Delaware holding company that is wholly owned by the ultimate parent, W.R. Berkley Corporation (WRBC), domiciled in the State of Delaware.

WRBC, founded in 1967, is an insurance holding company that is among the largest commercial lines writers in the United States, and operates in five segments of the property and casualty insurance business that include specialty insurance, regional property and casualty insurance, alternative markets, reinsurance and international. WRBC has offices throughout the United States, as well as in Europe, South America and the Philippines.

As stated in its 2006 annual report, WRBC had assets of $15.6 billion and stockholders' equity of $3.3 billion.

The following organizational chart reflects the identities and interrelationships between the primary subsidiaries of the W. R. Berkley Corporation that are part of the holding company system as of December 31, 2006:

	Percentage owned by Berkley **(1)**
W. R. Berkley Corporation	
Berkley International, LLC **(2)**	100%
Berkley Surety Group, Inc.	100%
Carolina Casualty Insurance Company (FL)	100%
Clermont Specialty Managers, Ltd	100%
Greenwich Knight Insurance Company, Ltd.	100%
J/I Holding Corporation	100%
Admiral Insurance Company (DE)	100%
Admiral Indemnity Company (DE)	100%
Berkley London Holdings, Inc. **(3)**	100%
W.R. Berkley London Finance, Limited	80%
W.R. Berkley London Holdings, Limited	80%
W.R. Berkley Insurance (Europe), Limited	100%
Berkley Risk Administrators Company, LLC	100%
Clermont Insurance Company (IA)	100%
Nautilus Insurance Company (AZ)	100%
Great Divide Insurance Company (AZ)	100%
Key Risk Management Services, Inc.	100%
Monitor Liability Managers, Inc.	100%
Queen’s Island Insurance Company, Ltd	100%
Signet Star Holdings, Inc.	100%
Berkley Insurance Company (DE)	100%
Berkley Regional Insurance Company (DE)	100%
Acadia Insurance Company (ME)	100%
Berkley Regional Specialty Insurance Company (DE)	100%
Continental Western Insurance Company (IA)	100%
Firemen’s Insurance Company of Washington, D.C. (DE)	100%
Tri-State Insurance Company of Minnesota (MN)	100%
Union Insurance Company (IA)	100%
Union Standard Insurance Company (OK)	100%
Gemini Insurance Company (DE)	100%
Key Risk Insurance Company (NC)	100%
Midwest Employers Casualty Company (DE)	100%
Preferred Employers Insurance Company (CA)	100%
Riverport Insurance Company (CA)	100%
Signet Star Re, LLC	100%
StarNet Insurance Company (DE)	**100%**
Facultative ReSources, Inc.	100%

1 W.R. Berkley Corporation is the ultimate parent. The subsidiary of a direct parent is indicated by indentation, and its percentage ownership is as indicated in this column.

2 Owned by W.R. Berkley Corporation and its subsidiaries as follows: W.R. Berkley Corporation (2%), Admiral Insurance Company (35%), Berkley Insurance Company (35%), Berkley Regional Insurance Company (14%), and Nautilus Insurance Company (14%).

3 Owned by Admiral Insurance Company (66.67%) and Berkley Insurance Company (33.33%).

During the period under examination, Holding Company Registration Statements were filed with the Delaware Insurance Department that included inter-company agreements and transactions as required by the provisions of Regulation 1801 of 18 Del.C.

TERRITORY AND PLAN OF OPERATION

Territory

The Company is authorized to transact the business of insurance in 48 states and the District of Columbia.

The principal office facilities of the Company are located in Greenwich, Connecticut.

Plan of Operation

StarNet's business is mainly produced by program administrators and underwriting managers through contracts with general agencies that specialize in certain lines of business. The Company utilizes affiliated companies to administer the underwriting and claims operations for such program business pursuant to management agreements that are discussed in the section of this report captioned, "Management and Service Agreements."

As of December 31, 2006, StarNet engaged in writing commercial and private passenger automobile liability, auto physical damage, inland marine, commercial and farm owners' multiple peril, workers' compensation, other liability and aircraft. The major portion of its direct premiums written was produced in the lines of commercial multiple peril totaling $37,358,258 and aircraft totaling $36,268,940, that represented a combined total of $73,627,198, comprising approximately 58% of the total direct premiums written of $126,459,660.

Approximately 90% of the Company's direct premiums written of $126,459,660 and reinsurance assumed of $313,138, netting to $126,772,798, was ceded to affiliates and non-affiliates. Berkley Insurance Company, the Company's immediate parent, assumed

$114,177,191, approximately 99%, of the total ceded amount.

Direct business is written on a national basis with an emphasis in the states of California ($19,648,643), New York ($13,890,916) and Florida ($10,780,217), as the premiums written in other states and the District of Columbia ranged from $7,916 to $9,433,739.

The Company's operations are managed by respective affiliates as discussed under the caption, "Management and Service Agreements," is described as follows:

Berkley Underwriting Partners, LLC

Berkley Underwriting Partners, LLC (BUP) enters into agreements with program administrators that produce certain kinds of commercial property and casualty business. During the year 2006, BUP produced approximately 67% of the business written by the Company.

Berkley Aviation, LLC

Berkley Aviation, LLC (BA) handles business produced by large brokerage firms and individual brokers specializing in aviation business. During the year 2006, BA produced approximately 29% of the business written by the Company.

Berkley Net Underwriters, LLC

Berkley Net Underwriters, LLC (BNU) handles workers' compensation coverage that is provided for small to medium sized companies. Business is generated through an on-line mechanism with data system capture that is able to accept and price risks, decline risks, or refer risks to an underwriter for further analysis. For the year end 2006, BNU, produced the remaining approximately 4% of the business written by the Company.

Berkley Accident and Health, LLC

Berkley Accident and Health, LLC (BAH), is segmented into two divisions Healthcare and Specialty Accident described below:

The Healthcare division focuses on managing and insuring medical costs for Fortune 500 companies, hospitals, medical professionals, managed care organizations, small to midsize employers, self-funded plan sponsors and government programs. The Company's solutions for the risks involved include medical stop loss, managed care excess, disability, dental, vision, prescription drugs and niche medical coverages.

The Specialty Accident division provides insurance to both employer and non-traditional groups. The Company offers products that include basic and voluntary accident insurance, business travel accident, occupational accident and accident medical coverage for specific activities or special events.

Although no business was written under this agreement, business is projected to be produced by retail brokers, independent general agents, employee benefit consultants and managing general underwriters.

As represented by management, the Company will also seek authority to transact the aforementioned insurance coverage managed by Berkley Aviation, LLC, Berkley Net Underwriter, LLC, and Berkley Accident and Health, LLC in the few states where it does not currently possess such authority.

GROWTH OF THE COMPANY

The following information was extracted from the Company's filed Annual Statements and shows the growth of the Company since the last examination as of December 31, 2003.

Year	Net Admitted Assets	Surplus as Regards Policyholders	Gross Premiums Written *	Net Premiums Written	Net Income
2006	$157,047,893	$102,615,520	$126,772,798	$12,595,607	$4,623,802
2005	55,223,627	23,840,570	110,753,943	11,030,190	1,493,851
2004	39,660,923	22,796,406	67,129,483	6,692,263	1,296,325
2003	36,949,784	21,450,920	66,733,151	6,646,072	1,278,236

* Direct premiums written and reinsurance assumed.

As shown above, the Company's gross written premiums for the years 2005 and 2006 increased substantially when compared to prior years. However, due to the 90% quota share reinsurance agreement with Berkley, the increase in gross written premiums had a minimal effect on net income and surplus as regards policyholders. The increase in net admitted assets and policyholder surplus in 2006 was mainly due to a $77 million paid in surplus contribution received from Berkley. The increase in net income for 2006 was due to the ongoing incremental profitability of the business and primarily from investment income.

REINSURANCE

For 2006, the Company reported the following distribution of premiums written:

Direct business	$ 126,459,660
Reinsurance assumed from affiliates	0
Reinsurance assumed from non-affiliates	313,138
Gross premiums written	126,772,798
Reinsurance ceded to affiliates	113,360,469
Reinsurance ceded to non-affiliates	816,722
Total ceded	114,177,191
Net premiums written	$ 12,595,607

Gross written premiums totaled $126,772,798 for the year ending December 31, 2006. Major direct writings consisted of commercial multiple peril $37,358,258; aircraft (all perils) $36,268,940; inland marine $13,606,643; other liability (occurrence) $13,605,548; and commercial auto liability $11,113,984, and constituted 88.34% of the gross premiums written for the year. Business assumed from non-affiliated companies was immaterial.

Ceded

Effective January 1, 1998, the Company entered into a 90% quota share agreement with its parent Berkley Insurance Company under which the Company ceded 90% of the net liabilities arising under the policies, contracts and binders of insurance or reinsurance in-force at the effective date or issued after that date and classified as property casualty insurance business by the Company.

Premiums ceded to non-affiliates were minor in nature and primarily provided catastrophic loss coverage to the Company.

MANAGEMENT AND SERVICE AGREEMENTS

Affiliated Agreements

The Company participated in the following inter-company management and service agreements that were in effect as of December 31, 2006:

Tax Allocation Agreement

Effective September 8, 1998 and last amended February 28, 1999, StarNet and W. R. Berkley Corporation (WRBC) entered into a tax allocation agreement whereby the Company is a member of an affiliated group of corporations of which WRBC, directly or indirectly, is the common parent that files consolidated federal income tax returns for the participating member companies.

The tax liability is allocated among affiliates in the ratio that each affiliate's separate return tax liability bears to the sum of the separate return tax liabilities of all affiliates that are members of the WRBC Group. Estimated payments are made by the respective affiliates to WRBC, and if such member is entitled to a credit, WRBC will account for such amount in the same way as if a credit or a claim for a refund was made directly by an affiliate with the Internal Revenue Service.

Investment Advisory Agreement

Effective July 16, 1998 and last amended February 28, 1999, StarNet entered into an investment advisory agreement whereby Berkley Dean and Company, Inc. (Berkley Dean) provides certain advisory and management services based upon criteria, standards and guidelines of the Company. StarNet has ultimate and final authority over decisions and policies on purchases and sales of securities. Berkley Dean receives .25% of 1% of the first $10,000,000 and .20% of 1% thereafter, of the net asset value of the portfolio at the end of each quarter which is when fee payments are due. Either party may terminate the agreement at any time with at least 90 days written notice prior to each anniversary of the agreement.

Cost Sharing Agreement

Effective July 16, 1998, the Company entered into a cost sharing agreement whereby Berkley Insurance Company (Berkley) provides certain property, equipment, facilities and personnel in performing certain underwriting, claims, accounting, legal and administrative functions and special services for its subsidiaries in their insurance and business operations.

Fees are on a cost basis and include directly allocable expenses reasonably and equitably determined to be attributable to StarNet by Berkley, plus a reasonable charge for direct overhead to be mutually agreed upon by StarNet and Berkley from time to time, provided however, that such charges cannot be any greater than the Company would expend if providing such services for itself.

Berkley is required to submit within 30 days of the end of each calendar month a statement of the amount owed and the Company shall pay to Berkley within 15 days following receipt of such statement. Either party may cancel the agreement upon giving 60 days prior written notice.

Underwriting Management Agreements

The Company has four underwriting management agreements and compensates its managers for the actual costs of services provided to the Company by the manager. Duration and termination provisions are contained in the agreements that may be cancelled by either party. The agreements are described as follows:

Berkley Underwriting Partners, LLC

Effective July 1, 2001, StarNet entered into an agreement with Berkley Underwriting Partners, LLC (BUP) to act as a manager for coordinating and overseeing all activities relating to the production of insurance underwritten by general agencies that specialize in managing program business. BUP provides Managing General Agencies (MGAs) or Program Administrators, services that include underwriting, claims, accounting, financing, information technology, regulatory compliance and actuarial support. In addition, BUP can manage activities regarding the placement of reinsurance through reinsurers in connection with the MGA or program business, enter into agreements on the Company's behalf with Third Party Administrators (TPAs) for obtaining claims administration services or adjust or settle claims arising out of or in connection with policies pursuant to an MGA or program administration agreement entered into on behalf of StarNet.

Settlement of balances by the manager to the Company are required to be no later than 30 days after the close of each quarter and settlement by the Company to the manager shall be upon receipt of the statement of account, unless the parties agree otherwise.

During the year 2006, BUP produced approximately 67% of the business written by the Company.

Berkley Aviation, LLC

Effective April 24, 2006, StarNet entered into an agreement with Berkley Aviation, LLC (BA) to act as a manager for producing, underwriting and servicing, on the Company's behalf, aviation coverage, including the handling and servicing of all claims and losses, and legal actions resulting or arising from such business.

Aviation coverage includes policies written for airlines, aircraft charter operations, aircraft hull and liability used for personal and business uses, non-owned aviation liability, commercial general liability for operations that are directly involved in aviation and other aviation related operations requiring insurance and certain other risks as may be approved in writing by the Company.

Services performed by BA are subject to the guidelines of the Company and include such functions as the following:

- Acceptance and declination of risks
- Issuance, cancellation and amendment of contracts of insurance
- Collection and payment of premiums and return premiums
- Rejection, adjustment, compromise and payment of loss and loss expenses
- Recovery of losses and expenses from the Company and or its reinsurers, if any
- Payment of all taxes and fees imposed by any government or agency other than premium taxes
- Payment of all dues and all other expenses connected with the business
- Determination of what constitutes a “risk,” an “insured,” a “claim” and a “loss”

A statement of account is required to be forwarded by the manager to the Company on a calendar quarterly basis in such form and detail as mutually agreed, but not later than 30 days after the close of each quarter. Settlement between the Company and the manager is required to occur within 30 days upon receipt of the statement of account, unless the parties agree otherwise.

During the year 2006, BA produced approximately 29% of the business written by the Company.

Berkley Net Underwriters, LLC

Effective April 24, 2006, StarNet entered into an agreement with Berkley Net Underwriters, LLC (BNU) to act as a manager for producing, underwriting and servicing, on the Company’s behalf, workers’ compensation coverage and certain other risks as may be approved by the Company including the general oversight of the handling and servicing of all claims and losses, and legal actions resulting or arising from such business.

Employer liability limits will be no more than $1 million on any single policy.

Services performed by BNU are subject to the guidelines of the Company and include such functions that were described in the agreement with BA. The rendering of the statement of accounts and the settlement of balances between the parties are the same as described in the agreement with BA.

During the year 2006, BNU produced approximately 4% of the business written by the Company.

Berkley Accident and Health, LLC

Effective April 24, 2006, StarNet entered into an agreement with Berkley Accident and Health, LLC (BAH) to act as a manager for producing, underwriting and servicing, on the Company's behalf, accident and health coverage and certain other risks as may be approved by the Company, including the handling and servicing of all claims and losses and legal actions resulting or arising from such business.

The manager is authorized for any one risk, to write coverage with a maximum net liability limit of $10,000,000 for each and every claim, and in the aggregate. In no event can the manager bind the Company to a policy limit greater than the amount as stated therein except to the extent that express approval is received in advance from specifically named officers of the Company.

Services performed by BAH are subject to the guidelines of the Company and include such functions that were described in the agreement with BA.

The rendering of the statement of accounts and the settlement of balances between the parties are the same as described in the agreement with BA.

During the year 2006, the Company did not write accident and health insurance.

Claims Service Agreements

Agreements are entered into between the Company's affiliates on behalf of StarNet, with Berkley Risk Administrators Company, LLC (BRAC), the servicing company that administers the claims, and BUP, the company that acts as a manager for StarNet, for the business underwritten by general agencies that specialize in managing specific types of program business.

BRAC performs detailed services that include adjustment, settlement, and resisting of claims; furnishing of claim forms and claim files for each reported claim; establishment of case basis reserves for loss and loss adjustment expenses subject to BUP’s authority; approval on all claims that are the subject matter of an agreement; claim investigation and adjustment work that can reasonably be performed from its own offices; and furnishing BUP with loss reports on a monthly basis.

BUP makes sufficient funds available to BRAC to pay claims and allocated loss adjustment expenses on behalf of StarNet, and maintains a bank account from which BRAC issues checks for the payment of claims and expenses. BUP grants authority to BRAC to do whatever is necessary, legal and proper to administer claims within BRAC’s discretionary settlement authority, which may vary within each type of agreement depending on the type of program business, and permits BRAC to retain the services of third parties approved by BUP to provide loss investigation, loss adjustment and legal services.

The agreement may be terminated by either BRAC or BUP with or without cause upon 60 days written prior notice to the other party.

Agreements with Non-Affiliates

Managing General Agents (MGAs), Third Party Claim Administrators (TPAs) and Underwriting Managers

The Company has entered into agreements and transactions with MGAs, TPAs and underwriting or program managers. The type of business and amount of premiums written is listed below and followed by a description that identifies the type of examination finding:

Managing General Agent or Third Party Administrator	Type of Business Written	Year and Amount of Direct Premiums Written
1) Legacy Insurance Services, Inc. - MGA	Private Passenger Automobile Liability, Automobile Physical Damage	2004 - $10,132,976 2005 - $ 6,034,770 2006 - $ 3,758,096
1a) Legacy Insurance Services, Inc. - TPA		
2) Western Marine Insurance Services, Inc. - MGA	Inland Marine, Automobile and Automobile Physical Damage	2005 - $ 3,833,681 2006 - $ 3,335,696

Each of the two MGAs produced premiums written greater than five percent (5%) of the Company's policyholder surplus between the years 2004 to 2006 and, either directly or by the means of utilizing a TPA, which was an affiliated company of the MGA, conducted claim administration services for the Company.

ACCOUNTS AND RECORDS

Information Systems Controls Evaluation

A high-level assessment of the internal control structure and process for the Company's accounting computer systems was discussed with management and reviewed after completion of questionnaires developed by the NAIC and the Delaware Department of Insurance. The discussions and review did not reveal any material deficiencies in the internal control structure of the Company.

Accounting System

All necessary accounting records of the Company are maintained on electronic data processing equipment. The Company's database was tested as part of Delaware examination procedures.

Independent Accountants

The Company's financial statements are audited each year by the firm of KPMG LLP, ("KPMG") of New York, New York. KPMG issued an unqualified opinion on the audited statutory financial statements for all years under examination. The workpapers prepared by KPMG in connection with the annual audit were reviewed and relied upon to the extent possible.

FINANCIAL STATEMENTS

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2006, as determined by this examination, along with supporting exhibits as detailed below:

Assets
Liabilities, Surplus and Other Funds
Statement of Income

Assets
As of December 31, 2006

	Assets	Assets	Assets	Notes
Bonds	$ 108,821,983		$ 108,821,983	1
Cash, cash equivalents, and short-term investments	1,656,235		1,656,235	
Investment income due and accrued	1,353,515		1,353,515	
Premiums in course of collections	20,208,164	$ 1,150,285	19,057,879	2
Premiums booked but deferred and not yet due	21,650,435		21,650,435	2
Amounts recoverable from reinsurance	1,376,446		1,376,446	
Net deferred tax asset	1,537,426	280,490	1,256,936	
Guaranty funds receivable	5,347		5,347	
Receivables from parent, subsidiaries and affiliates	273,653		273,653	
Contingent commission receivable	1,226,522		1,226,522	
Disbursements not allocated	348,039		348,039	
Premium tax receivable	13,793		13,793	
Miscellaneous assets	7,110		7,110	
Prepaid expenses	780,458	780,458		
Total Assets	$ 159,259,126	$ 2,211,233	$ 157,047,893	

Liabilities, Surplus and Other Funds
As of December 31, 2006

Losses	$	9,164,285	3
Loss adjustment expenses		2,461,704	3
Commissions payable		83,718	
Other expenses		87,908	
Taxes, licenses and fees		1,036,280	
Current federal and foreign income taxes payable		181,300	
Unearned premiums		6,875,373	
Advance premium		14,003	
Ceded reinsurance premiums payable		29,265,837	
Funds held by company under reinsurance treaties		4,172,902	
Payable to parent, subsidiaries and affiliates		929,063	
Miscellaneous payable - program collateral		160,000	
Total Liabilities	$	54,432,373	
Common capital stock	$	6,000,000	
Gross paid-in and contributed surplus		88,849,611	
Unassigned funds (surplus)		7,765,909	
Surplus as regards policyholders	$	102,615,520	
Total	$	157,047,893	

Statement of Income
As of December 31, 2006

UNDERWRITING INCOME		
Premiums earned	$	10,625,234
DEDUCTIONS		
Losses incurred	$	4,064,141
Loss expenses incurred		1,716,545
Other underwriting expenses incurred		2,711,953
Total underwriting deductions	$	8,492,639
Net underwriting gain or (loss)	$	2,132,595
INVESTMENT INCOME		
Net investment income earned	$	4,064,730
Net realized capital gains or (losses)		(128,714)
Net investment gain or (loss)	$	3,936,016
OTHER INCOME		
Finance and service charges not included in premiums	$	63,798
Total other income	$	63,798
Net income before dividends to policyholders and before federal income tax	$	6,132,409
Federal and foreign income taxes incurred		1,508,607
Net income	$	4,623,802
CAPITAL AND SURPLUS ACCOUNT		
Surplus as regards policyholders, December 31, 2005	$	23,840,570
GAINS AND (LOSSES) IN SURPLUS		
Net income	$	4,623,802
Change in net unrealized capital gains or (losses)		(2,335,271)
Change in net deferred income tax		602,385
Change in non-admitted assets		(1,115,966)
Surplus adjustments:		
Paid in		77,000,000
Change in surplus as regards policyholders for the year	$	78,774,950
Surplus as regards policyholders, December 31, 2006	$	102,615,520

Schedule of Examination Adjustments

Description	Per Examination	Per Company	Surplus Increase (Decrease)
Assets:			
Premiums in course of collection	$19,057,879	$ 36,071,756	$(17,013,877)
Premiums booked but deferred and not yet due	21,650,435	4,636,558	17,013,877
Adjusted Admitted Assets	$40,708,314	$ 40,708,314	$

NOTES TO FINANCIAL STATEMENTS

Note 1 - Bonds **$108,821,983**

Bonds, comprising 69.29% of total admitted assets, were determined to be the same amount as reported by the Company in its Annual Statement. In addition, 95.4 % of the bonds were rated Class 2 or higher by the NAIC Securities Valuations Office.

Note 2 - Uncollected Premiums and Agents Balances in Course of Collection **$19,057,879**
Premiums and agents balances deferred and not yet due **$21,650,435**

It was noted that aviation premiums due and uncollected were overstated by $17,013,877 due to the Company erroneously classifying premiums which were actually deferred and not yet due, as due and uncollected. For examination purposes, a reclassification adjustment was made to reduce premiums in course of collection by $17,013,877 and to increase premiums deferred and not yet due by the same amount. This reclassification had no effect on policyholder surplus.

Note 3 - Losses **$ 9,164,285**
Loss Adjustment Expenses **$ 2,461,704**

INS Consultants, Inc. (INS) was retained by the Delaware Insurance Department to conduct a review of the Company's reserve methodologies and adequacy. Based on their review, the Company's reported total loss and loss adjustment expense reserves at December 31, 2006 of $11,625,989 were properly stated.

INS's analysis is net of reinsurance and does not address the collectability of reinsurance recoverables.

The underlying data was tested through a review of open and paid claim files and actual payments made, with no exceptions noted. The aggregated actuarial data provided by the Company, was verified and balanced to Schedule P of the Company's filed Annual Statement.

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

The Company has fully complied with all prior exam report recommendations.

SUMMARY OF RECOMMENDATIONS

It is recommended that the Company comply with 18 Del. § 4919 and promptly notify the Commissioner in writing of any change of personnel among its directors or principal officers. (See Management and Control: Notification of Change of Directors and Officers, page 7)

It is recommended that the Company comply with its Policy Statement on Conflict of Interest procedures by verifying that its officers and directors submit certificate of compliance or conflict of interest forms on at least an annual basis. (See Management and Control: Conflict of Interest Policy, page 8)

It is recommended that the Company's Board of Directors approve all inter-company agreements. (See Management and Control: Lack of Board of Directors Approvals of Transactions, page 8)

CONCLUSION

The following schedule shows the results of this and the prior examination with changes during the three-year period:

Description	December 31, 2003	December 31, 2006	Difference
Assets	$ 36,949,784	$157,047,893	$120,098,109
Liabilities	15,498,864	54,432,373	38,933,509
Capital and Surplus	21,450,920	102,615,520	81,164,600

The assistance of Delaware's consulting firms, INS Consultants, Inc., and INS Services, Inc., is acknowledged.

Respectfully submitted,

Douglas E. Bey

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Examiner-In-Charge
State of Delaware
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